

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Walled Lake, Michigan	County Oakland
Audit Date June 30, 2004	Opinion Date August 6, 2004	Date Accountant Report Submitted To State: September 2, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **City of Walled Lake, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Walled Lake, Michigan

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# City of Walled Lake, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Walled Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Walled Lake, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Walled Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Walled Lake, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedules of the General Fund, Major Streets Fund and Local Streets Fund, and the pension system schedule of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and  
Members of the City Council  
City of Walled Lake, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walled Lake, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

August 6, 2004

# City of Walled Lake, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Walled Lake's financial performance provides an overview of the City of Walled Lake's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$50,000 this year. The City reacted by enacting a spending freeze except for absolute necessities from February 2004 through the end of the fiscal year, which resulted in a fund balance of \$433,467.
- Total net assets related to the City's governmental activities decreased by approximately \$66,000, and the unrestricted portion of net assets increased by approximately \$36,000.
- The City began a long-term investment in its road infrastructure by meeting with Tetra Tech, MPS and mapping out a course for future road repairs, which will involve a transfer from the Major Streets Fund to the Local Streets Fund.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Walled Lake as a whole and present a longer-term view of the City of Walled Lake's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Walled Lake's operations in more detail than the government-wide financial statements by providing information about the City of Walled Lake's most significant funds. The fiduciary fund statements provide financial information about activities for which the City of Walled Lake acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Walled Lake, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in thousands of dollars). The table below in condensed format is required to be shown in comparative format in fiscal year 2005:

TABLE I

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 1,866	\$ 1,391	\$ 3,257
Noncurrent assets	<u>11,441</u>	<u>7,855</u>	<u>19,296</u>
Total assets	13,307	9,246	22,553
<b>Liabilities</b>			
Current liabilities	1,142	634	1,776
Long-term liabilities	<u>4,431</u>	<u>447</u>	<u>4,878</u>
Total liabilities	<u>5,573</u>	<u>1,081</u>	<u>6,654</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	7,269	7,138	14,407
Restricted	777	-	777
Unrestricted (deficit)	<u>(312)</u>	<u>1,027</u>	<u>715</u>
Total net assets	<u>\$ 7,734</u>	<u>\$ 8,165</u>	<u>\$ 15,899</u>

The City of Walled Lake's combined net assets increased 1.6 percent from a year ago - increasing from approximately \$15,647,000 to \$15,899,000. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$66,000 (approximately 1 percent decrease in net assets).

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$36,000 for the governmental activities. This represents an increase of approximately 10 percent. The current level of unrestricted net assets for our governmental activities is a deficit of \$311,671.



# City of Walled Lake, Michigan

## Management's Discussion and Analysis (Continued)

While forecasting for the close of the 2003-2004 fiscal year and formulation of the 2004-2005 budget, the staff reported some troubling facts. If revenues and expenditures continued at the current pace, the General Fund balance for the City of Walled Lake would be at a dangerously low level. After reporting this information to City Council, the following steps were placed into action: (1) for the positions of city manager and director of public safety to remain as one, (2) to enact a spending freeze except for necessity purchases to enable day-to-day functions to continue, and (3) to formulate the upcoming budget as a "bare bones" budget, eliminating all but necessities including out-of-state travel and many conferences. In respect to revenues, unlike other municipalities, the City was fortunate to experience revenues from the building department that exceeded projections. The combination of cost containment and the increase in permit revenues allowed the City to maintain adequate funding levels so services to our residents were not forced to be cut.

The following table shows the changes of the net assets during the current year (in thousands of dollars). The table below in condensed format is required to be shown in comparative format in fiscal year 2005.

TABLE 2

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 964	\$ 1,801	\$ 2,765
Operating grants and contributions	453	-	453
Capital grants and contributions	-	976	976
General revenue:			
Property taxes	2,924	-	2,924
State-shared revenue	648	-	648
Unrestricted investment earnings	46	56	102
Miscellaneous	93	38	131
Transfers	62	(62)	-
Total revenue	5,190	2,809	7,999

# City of Walled Lake, Michigan

## Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	Business-type Activities	Total
<b>Program Expenses</b>			
General government	\$ 969	\$ -	\$ 969
Public safety	2,930	-	2,930
Public works	1,191	-	1,191
Recreation and culture	40	-	40
Interest on long-term debt	126	-	126
Water and sewer	-	2,492	2,492
Total program expenses	5,256	2,492	7,748
<b>Change in Net Assets</b>	<b>\$ (66)</b>	<b>\$ 317</b>	<b>\$ 251</b>

While the taxable value for the City of Walled Lake continues to increase, unfortunately so does the cost of providing service to our residents. One of the largest increases the City continues to experience is the soaring cost of providing health care to our employees. In each of the last several years, the City of Walled Lake has experienced double-digit increases from our health providers with no real avenue to avoid the costs due to our collective bargaining agreements.

### Governmental Activities

The City of Walled Lake's total net assets increased by approximately \$251,000, despite decreases in State-shared revenue and interest income. The increase, which represents 1.60 percent, was primarily due to the continuing increase in property taxes.

Increases in expenditures were led by large increases in health care costs and other contractual benefit costs. To offset this, the City of Walled Lake closely monitored its spending in all other areas, including seasonal hiring and delaying certain purchases with no immediate necessity.

### Business-type Activities

The City of Walled Lake's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit Water System. We provide sewage services through a jointly owned treatment plant with the City of Novi operated by Oakland County. In 2003, it was a drier-than-average year, which resulted in relatively high usage in the water system. In June 2004, the City Council approved a slight rate increase and the establishment of a Capital Replacement Fund. The forecast for these funds is optimistic and future rate increases should be minimal.

# **City of Walled Lake, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **The City of Walled Lake's Funds**

Our analysis of the City of Walled Lake's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Walled Lake as a whole. The City of Walled Lake's Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City of Walled Lake's major funds for 2004 include the General Fund, Major Streets Fund, Local Streets Fund, and the Capital Projects Fund.

The General Fund pays for most of the City of Walled Lake's governmental services. The most significant are police and fire, which incurred expenses of approximately \$2,509,000 in 2004. These two services are partially supported by some service charges, grants, and contributions which are recorded in the General Fund. During the current year, this amounted to approximately \$617,000. The remaining \$1,892,000 cost of the police and fire departments is funded by other general revenue sources of the General Fund, including property taxes.

### **General Fund Budgetary Highlights**

Over the course of the year, the City of Walled Lake amended the budget to take into account events during the year. The most significant change was to decrease the budgeted revenue sharing by approximately \$30,000. The City of Walled Lake's departments, overall, stayed within the original budget, resulting in total expenditures approximately \$374,000 above the amended budget. This allowed the General Fund's fund balance to only decrease from \$487,647 to \$433,467 at June 30, 2004.

### **Capital Asset and Debt Administration**

At the end of 2004, the City of Walled Lake had approximately \$19,284,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City of Walled Lake has invested significantly in roads within the City of Walled Lake.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Walled Lake's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the City of Walled Lake needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Walled Lake will grow less than inflation, before considering new property additions.

As discussed above, we anticipate that the water and sewer rates will have to steadily increase in the future. We are in the process of evaluating the amount of increase that will be needed and will present our study along with future increase recommendations.

# **City of Walled Lake, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City of Walled Lake's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Walled Lake's finances and to show the City of Walled Lake's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# City of Walled Lake, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,522,423	\$ 902,400	\$ 2,424,823	\$ 1,163,948
Receivables:				
Customers	-	269,751	269,751	11,898
Due from other governmental units	158,407	75,899	234,306	25,630
Other	50,825	-	50,825	44,791
Advances to component units	-	130,714	130,714	-
Due from component units	63,878	-	63,878	-
Prepaid expenses and other assets	70,854	11,971	82,825	2,491
Restricted assets (Note 1)	-	10,797	10,797	-
Capital assets (Note 4)	11,440,487	7,843,864	19,284,351	761,934
<b>Total assets</b>	<b>13,306,874</b>	<b>9,245,396</b>	<b>22,552,270</b>	<b>2,010,692</b>
<b>Liabilities</b>				
Accounts payable	107,174	272,830	380,004	3,089
Due to other governmental units	32,122	-	32,122	2,090
Due to primary government	-	-	-	63,878
Accrued and other liabilities	343,327	27,513	370,840	13,842
Cash advances and deposits	215,405	-	215,405	-
Noncurrent liabilities (Note 6):				
Due within one year	443,567	333,272	776,839	189,138
Due in more than one year	4,431,399	447,301	4,878,700	410,500
<b>Total liabilities</b>	<b>5,572,994</b>	<b>1,080,916</b>	<b>6,653,910</b>	<b>682,537</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	7,268,779	7,137,861	14,406,640	636,421
Restricted:				
Major and local streets	776,772	-	776,772	-
Library capital projects	-	-	-	14,119
Unrestricted	(311,671)	1,026,619	714,948	677,615
<b>Total net assets</b>	<b>\$ 7,733,880</b>	<b>\$ 8,164,480</b>	<b>\$ 15,898,360</b>	<b>\$ 1,328,155</b>

# City of Walled Lake, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 969,192	\$ 120,436	\$ 37,535	\$ -
Public safety	2,929,369	576,565	40,000	-
Public works	1,191,362	267,354	375,480	-
Recreation and culture	40,407	-	-	-
Interest on long-term debt	126,296	-	-	-
Total governmental activities	5,256,626	964,355	453,015	-
Business-type activities:				
Water	1,156,752	1,255,304	-	381,872
Sewer	1,335,581	545,350	-	594,620
Total primary government	<u>\$ 7,748,959</u>	<u>\$ 2,765,009</u>	<u>\$ 453,015</u>	<u>\$ 976,492</u>
Component units:				
Downtown Development Authority	\$ 710,526	\$ 24,684	\$ -	\$ -
Library	398,691	170,354	18,342	20,650
Total component units	<u>\$ 1,109,217</u>	<u>\$ 195,038</u>	<u>\$ 18,342</u>	<u>\$ 20,650</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Sale of land				
Transfers				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (811,221)	\$ -	\$ (811,221)	\$ -
(2,312,804)	-	(2,312,804)	-
(548,528)	-	(548,528)	-
(40,407)	-	(40,407)	-
(126,296)	-	(126,296)	-
(3,839,256)	-	(3,839,256)	-
-	480,424	480,424	-
-	(195,611)	(195,611)	-
(3,839,256)	284,813	(3,554,443)	-
-	-	-	(685,842)
-	-	-	(189,345)
-	-	-	(875,187)
2,923,752	-	2,923,752	1,072,592
648,317	-	648,317	-
46,190	55,931	102,121	9,691
93,006	37,962	130,968	1,900
-	-	-	326,548
61,510	(61,510)	-	-
3,772,775	32,383	3,805,158	1,410,731
(66,481)	317,196	250,715	535,544
7,800,361	7,847,284	15,647,645	792,611
<b>\$ 7,733,880</b>	<b>\$ 8,164,480</b>	<b>\$ 15,898,360</b>	<b>\$ 1,328,155</b>

# City of Walled Lake, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	Special Revenue Funds				Total Governmental Funds
	General	Major Streets	Local Streets	Capital Projects	
<b>Assets</b>					
Cash and investments (Note 3)	\$ 685,335	\$ 778,418	\$ 51,628	\$ 7,042	\$ 1,522,423
Receivables:					
Due from other governmental units	98,831	43,194	16,382	-	158,407
Other	18,523	-	-	-	18,523
Due from other funds (Note 5)	65,530	-	-	-	65,530
Due from component units	63,878	-	-	-	63,878
Prepaid expenses and other assets	68,343	1,205	1,306	-	70,854
Total assets	<u>\$ 1,000,440</u>	<u>\$ 822,817</u>	<u>\$ 69,316</u>	<u>\$ 7,042</u>	<u>\$ 1,899,615</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 103,454	\$ 3,100	\$ 620	\$ -	\$ 107,174
Due to other governmental units	32,122	-	-	-	32,122
Due to other funds	-	27,358	38,172	-	65,530
Accrued and other liabilities	215,992	43,463	2,648	-	262,103
Cash advances and deposits	215,405	-	-	-	215,405
Total liabilities	566,973	73,921	41,440	-	682,334
<b>Fund Balances</b>					
Reserved for prepaid expenses	68,343	-	-	-	68,343
Unreserved	365,124	748,896	27,876	7,042	1,148,938
Total fund balances	433,467	748,896	27,876	7,042	1,217,281
Total liabilities and fund balances	<u>\$ 1,000,440</u>	<u>\$ 822,817</u>	<u>\$ 69,316</u>	<u>\$ 7,042</u>	<u>\$ 1,899,615</u>
<b>Fund Balance - Total Governmental Funds</b>					\$ 1,217,281
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					11,440,487
Compensated absences are included as a liability in governmental activities					(703,258)
Long-term liabilities and related accrued interest are not due and payable in the current period and are not reported in the funds					(4,252,932)
Delinquent property taxes are included as revenue in governmental activities					32,302
Net assets of governmental activities					<u>\$ 7,733,880</u>



# City of Walled Lake, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Major Streets	Local Streets	Capital Projects	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 2,910,835	\$ -	\$ 2,000	\$ -	\$ 2,912,835
Licenses and permits	493,539	-	-	-	493,539
Federal sources	37,535	-	-	-	37,535
State sources	648,317	260,131	115,349	-	1,023,797
Charges for services	377,896	-	-	-	377,896
Fines and forfeitures	65,917	-	-	-	65,917
Interest earnings and rent	38,889	10,359	1,008	372	50,628
Contributions - Downtown Development Authority	241,366	-	-	-	241,366
Other	155,474	748	813	27,670	184,705
<b>Total revenue</b>	<b>4,969,768</b>	<b>271,238</b>	<b>119,170</b>	<b>28,042</b>	<b>5,388,218</b>
<b>Expenditures</b>					
Current:					
General government	1,072,800	-	-	-	1,072,800
Public safety	2,852,104	-	-	-	2,852,104
Public works	687,061	192,679	274,655	-	1,154,395
Recreation and cultural	21,665	-	-	-	21,665
Planning and development	-	-	-	23,702	23,702
Debt service	241,366	-	-	207,760	449,126
<b>Total expenditures</b>	<b>4,874,996</b>	<b>192,679</b>	<b>274,655</b>	<b>231,462</b>	<b>5,573,792</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>94,772</b>	<b>78,559</b>	<b>(155,485)</b>	<b>(203,420)</b>	<b>(185,574)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	36,000	210,462	246,462
Transfers out	(148,952)	(36,000)	-	-	(184,952)
<b>Total other financing sources (uses)</b>	<b>(148,952)</b>	<b>(36,000)</b>	<b>36,000</b>	<b>210,462</b>	<b>61,510</b>
<b>Net Change in Fund Balances</b>	<b>(54,180)</b>	<b>42,559</b>	<b>(119,485)</b>	<b>7,042</b>	<b>(124,064)</b>
<b>Fund Balances - Beginning of year</b>	<b>487,647</b>	<b>706,337</b>	<b>147,361</b>	<b>-</b>	<b>1,341,345</b>
<b>Fund Balances - End of year</b>	<b>\$ 433,467</b>	<b>\$ 748,896</b>	<b>\$ 27,876</b>	<b>\$ 7,042</b>	<b>\$ 1,217,281</b>

# City of Walled Lake, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (124,064)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (342,584)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds 10,917

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 322,830

Decreases in accumulated employee sick and vacation pay are recorded when earned in the statement of activities 66,420

**Change in Net Assets of Governmental Activities** \$ (66,481)

# City of Walled Lake, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Water	Sewer	Total Enterprise Fund
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 505,059	\$ 397,341	\$ 902,400
Receivables:			
Customers	151,019	118,732	269,751
Due from other governmental units	75,899	-	75,899
Advances to component units	-	130,714	130,714
Due from other funds (Note 5)	-	2,548	2,548
Prepaid expenses and other assets	11,429	542	11,971
Total current assets	743,406	649,877	1,393,283
Noncurrent assets:			
Restricted assets (Note 1)	-	10,797	10,797
Capital assets (Note 4)	922,608	6,921,256	7,843,864
Total noncurrent assets	922,608	6,932,053	7,854,661
Total assets	1,666,014	7,581,930	9,247,944
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	94,231	178,599	272,830
Due to other funds	2,548	-	2,548
Accrued and other liabilities	11,524	15,989	27,513
Current portion of long-term debt (Note 6)	25,647	307,625	333,272
Total current liabilities	133,950	502,213	636,163
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	67,641	379,660	447,301
Total liabilities	201,591	881,873	1,083,464
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	829,320	6,233,971	7,063,291
Unrestricted	635,103	466,086	1,101,189
Total net assets	<u>\$ 1,464,423</u>	<u>\$ 6,700,057</u>	<u>\$ 8,164,480</u>

# City of Walled Lake, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Water	Sewer	Total Enterprise Fund
<b>Operating Revenue</b>			
Customer usage billings	\$ 1,169,997	\$ 500,028	\$ 1,670,025
Tap-in fees and permits	29,471	45,322	74,793
Other charges for services	55,836	-	55,836
Other income	18,386	19,576	37,962
<b>Total operating revenue</b>	1,273,690	564,926	1,838,616
<b>Operating Expenses</b>			
Sewage treatment costs	-	710,443	710,443
Cost of water purchased	510,519	-	510,519
Depreciation	83,650	301,172	384,822
Personnel services	356,588	125,386	481,974
General and administrative	195,951	109,429	305,380
<b>Total operating expenses</b>	1,146,708	1,246,430	2,393,138
<b>Net Operating Income (Loss)</b>	126,982	(681,504)	(554,522)
<b>Nonoperating Revenue (Expense)</b>			
Interest income	26,448	29,483	55,931
Interest expense	(10,044)	(89,151)	(99,195)
<b>Income (Loss) - Before capital contributions</b>	143,386	(741,172)	(597,786)
<b>Capital Contributions - Capital charge/Tap-in fees</b>	381,872	594,620	976,492
<b>Transfers to Other Funds</b>	(30,755)	(30,755)	(61,510)
<b>Change in Net Assets</b>	494,503	(177,307)	317,196
<b>Net Assets - Beginning of year</b>	969,920	6,877,364	7,847,284
<b>Net Assets - End of year</b>	<u>\$ 1,464,423</u>	<u>\$ 6,700,057</u>	<u>\$ 8,164,480</u>

# City of Walled Lake, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Water	Sewer	Total Enterprise Fund
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,100,236	\$ 501,668	\$ 1,601,904
Payments to suppliers	(556,280)	(693,267)	(1,249,547)
Payments to employees	(349,913)	(135,833)	(485,746)
Other payments	(133,158)	(90,395)	(223,553)
Net cash provided by (used in) operating activities	60,885	(417,827)	(356,942)
<b>Cash Flows from Noncapital Financing Activities - Operating transfers out</b>	(30,755)	(30,755)	(61,510)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of customer assessments	381,872	594,620	976,492
Purchase of capital assets	(36,000)	(36,000)	(72,000)
Principal and interest paid on capital debt	33,785	(307,676)	(273,891)
Net cash provided by capital and related financing activities	379,657	250,944	630,601
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	26,448	19,587	46,035
Proceeds from sale and maturities of investment securities	14,819	95,181	110,000
Net cash provided by investing activities	41,267	114,768	156,035
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	451,054	(82,870)	368,184
<b>Cash and Cash Equivalents - Beginning of year</b>	30,694	363,255	393,949
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 481,748</u>	<u>\$ 280,385</u>	<u>\$ 762,133</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 505,059	\$ 397,341	\$ 902,400
Less amounts classified as investments (Note 3)	(23,311)	(116,956)	(140,267)
Total cash and cash equivalents	<u>\$ 481,748</u>	<u>\$ 280,385</u>	<u>\$ 762,133</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ 126,982	\$ (681,504)	\$ (554,522)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	83,650	301,172	384,822
Changes in assets and liabilities:			
Receivables	(54,034)	(36,884)	(90,918)
Other assets	(56,627)	(7,340)	(63,967)
Accounts payable	(45,761)	17,176	(28,585)
Accrued and other liabilities	6,675	(10,447)	(3,772)
Net cash provided by (used in) operating activities	<u>\$ 60,885</u>	<u>\$ (417,827)</u>	<u>\$ (356,942)</u>

**Noncash Investing, Capital, and Financing Activities** - In previous years, Oakland County issued bonds on behalf of the City of Walled Lake. Interest of \$4,108 was earned on the related unspent construction proceeds during the year. Restricted assets of approximately \$253,000 consisting of assets held at the County were used to repay a portion of the outstanding bonds.

# City of Walled Lake, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

	Retiree Health	
	Care Fund	Agency
<b>Assets</b>		
Cash and investments (Note 3)	\$ 11,060	\$ 90,823
Investments (Note 3):		
Equity mutual fund	177,900	-
Bond mutual fund	114,317	-
Due from other governmental units	-	894
Total assets	303,277	<u><u>\$ 91,717</u></u>
<b>Liabilities</b>		
Accounts payable	-	\$ 305
Cash bonds and deposits	-	91,412
Total liabilities	-	<u><u>\$ 91,717</u></u>
<b>Net Assets</b> - Held in trust for employee benefits	<u><u>\$ 303,277</u></u>	

# City of Walled Lake, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Retiree Health Care Fund
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 6,165
Net increase in fair value of investments	<u>24,811</u>
Net investment income	30,976
Contributions - Employer	<u>106,246</u>
Total additions	137,222
<b>Deductions</b>	
Retiree health care premium	61,200
Other	<u>12,963</u>
Total deductions	<u>74,163</u>
<b>Change in Net Assets</b>	63,059
<b>Net Assets - Beginning of year</b>	<u>240,218</u>
<b>Net Assets - End of year</b>	<u><u>\$ 303,277</u></u>

# City of Walled Lake, Michigan

## Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Walled Lake City Library	Totals
<b>Assets</b>			
Cash and equivalents	\$ 852,481	\$ 311,467	\$ 1,163,948
Special assessment receivable	11,898	-	11,898
Delinquent property tax receivable	44,791	-	44,791
Due from other governmental units	630	25,000	25,630
Prepaid expenses and other assets	688	1,803	2,491
Capital assets	313,888	448,046	761,934
<b>Total assets</b>	<b>1,224,376</b>	<b>786,316</b>	<b>2,010,692</b>
<b>Liabilities</b>			
Accounts payable	3,032	57	3,089
Due to primary government	63,878	-	63,878
Due to other governmental units	2,090	-	2,090
Accrued and other liabilities	7,782	6,060	13,842
Noncurrent liabilities (Note 6):			
Due within one year	189,138	-	189,138
Due in more than one year	410,500	-	410,500
<b>Total liabilities</b>	<b>676,420</b>	<b>6,117</b>	<b>682,537</b>
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	188,375	448,046	636,421
Unrestricted	359,581	332,153	691,734
<b>Total net assets</b>	<b>\$ 547,956</b>	<b>\$ 780,199</b>	<b>\$ 1,328,155</b>



# City of Walled Lake, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants/Contributions	Capital Grants and Contributions
Downtown Development Authority:				
Public works	\$ 705,326	\$ 24,684	\$ -	\$ -
Interest on long-term debt	5,200	-	-	-
Walled Lake City Library - Recreation and culture	<u>398,691</u>	<u>170,354</u>	<u>18,342</u>	<u>20,650</u>
Total governmental activities	<u><b>\$ 1,109,217</b></u>	<u><b>\$ 195,038</b></u>	<u><b>\$ 18,342</b></u>	<u><b>\$ 20,650</b></u>
General revenues:				
Property taxes				
Unrestricted investment earnings				
Miscellaneous				
Sale of land				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year				
<b>Net Assets</b> - End of year				

**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Walled Lake City Library	Total
\$ (680,642)	\$ -	\$ (680,642)
(5,200)	-	(5,200)
-	(189,345)	(189,345)
(685,842)	(189,345)	(875,187)
931,492	141,100	1,072,592
6,258	3,433	9,691
1,900	-	1,900
326,548	-	326,548
1,266,198	144,533	1,410,731
580,356	(44,812)	535,544
(32,400)	825,011	792,611
<b>\$ 547,956</b>	<b>\$ 780,199</b>	<b>\$ 1,328,155</b>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Walled Lake, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Walled Lake, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

The following component units are reported within the component units column in the accompanying financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council.
- b. The Walled Lake City Library is governed by a five-member board appointed by the mayor and approved by the City Council. The Library is funded by a specially voted property tax levy.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund is used to account for maintenance and construction of major public roads within the City.

**Local Streets Fund** - The Local Streets Fund is used to account for maintenance and construction of local public roads within the City.

**Capital Projects Fund** - The Capital Projects Fund is used to account for the development of capital facilities other than those financed by the operations of a proprietary fund.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fiduciary fund types:

**Retiree Health Care Fund** - The Retiree Health Care Fund accounts for medical benefits provided to retirees.

**Agency Funds** - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as water and sewer distribution and collection. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Property Tax Revenue

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with a final collection date of February 28 before they are added to the county tax rolls. The 2003 taxable valuation of the City totaled approximately \$200 million. The taxes levied and the resulting revenue by fund and component units was as follows:

	Millage Rate	Revenue
Operating millage - Net of portion captured by Downtown Development Authority	16.6134	\$ 2,808,330
Other - Tax collection and trailer park fees		<u>115,422</u>
Total governmental funds		<u>\$ 2,923,752</u>
Library Fund - Component unit	<u>0.8306</u>	\$ 141,100
Downtown Development Authority capture		<u>931,492</u>
Total component units	<u>\$ 17.444</u>	<u>\$ 1,072,592</u>

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

**Cash Equivalents** - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

### Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Specific assets held at Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to Oakland County based on specific contracts with them.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	40 to 50 years
Water and sewer distribution systems	38 to 50 years
Buildings and building improvements	25 to 50 years
Vehicles	3 to 15 years
Furniture and equipment	3 to 30 years

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end and unused sick pay benefits paid within one month of year end.



### Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. In the fund financial statements, governmental fund types recognize debt issued as other financing sources.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The following is a summary of the unreserved fund balances of certain component units with management's designations:

Walled Lake City Library - Designated for capital improvement	<u>\$ 205,000</u>
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**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and Special Revenue Funds budgets as adopted by the City Council is included in the additional information. These comparisons include minor expenditure budget overruns.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Building permit revenue	\$ 319,374
Direct costs	(232,354)
Cumulative costs in excess of permit revenue:	
Beginning of year	<u>(228,404)</u>
End of year	<u>\$ (141,384)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City of Walled Lake, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 1,522,423	\$ 902,400	\$ 394,100	\$ 2,818,923	\$ 1,163,948
Restricted assets	<u>-</u>	<u>10,797</u>	<u>-</u>	<u>10,797</u>	<u>-</u>
Total	<u>\$ 1,522,423</u>	<u>\$ 913,197</u>	<u>\$ 394,100</u>	<u>\$ 2,829,720</u>	<u>\$ 1,163,948</u>

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,803,442	\$ 1,043,455
Investments in securities, mutual funds, and similar vehicles	1,025,578	120,243
Petty cash or cash on hand	700	250
Total	<u>\$ 2,829,720</u>	<u>\$ 1,163,948</u>

#### Deposits

The bank balance of the City's deposits is \$1,848,820, of which \$200,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$1,071,510. The deposits were held in the name of the City of Walled Lake, Michigan and any federal depository insurance would potentially be shared with the City.

#### Investments

The Retiree Health Care Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004.

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government - U.S. government agency mortgage-backed securities	\$ -	\$ 230,072	\$ -	\$ 230,072
Investments not subject to categorization:				
Bank investment pool funds				503,289
Mutual funds				292,217
Total primary government				\$ 1,025,578

### Component Units

The component units' investments consisted of \$104,079 of bank investment pools and \$16,164 of U.S. government agency mortgage-backed securities in U.S. Treasury guaranteed promissory notes (classified as Category 2).

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 1,572,172	\$ -	\$ -	\$ 1,572,172
Capital assets being depreciated:				
Roads and sidewalks	8,922,223	-	-	8,922,223
Buildings and improvements	1,154,303	-	-	1,154,303
Vehicles	1,255,204	40,904	-	1,296,108
Furniture and equipment	848,372	21,574	-	869,946
Subtotal	12,180,102	62,478	-	12,242,580
Less accumulated depreciation	1,969,203	405,062	-	2,374,265
Net capital assets being depreciated	10,210,899	(342,584)	-	9,868,315
Net capital assets	<u>\$ 11,783,071</u>	<u>\$ (342,584)</u>	<u>\$ -</u>	<u>\$ 11,440,487</u>
	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 14,808,767	\$ -	\$ -	\$ 14,808,767
Furniture and equipment	858,851	72,000	-	930,851
Subtotal	15,667,618	72,000	-	15,739,618
Less accumulated depreciation	7,510,932	384,822	-	7,895,754
Net capital assets being depreciated	<u>\$ 8,156,686</u>	<u>\$ (312,822)</u>	<u>\$ -</u>	<u>\$ 7,843,864</u>

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Capital Assets (Continued)

Capital asset activity for the City's component units for the year was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Component Units</b>				
Capital assets not being depreciated -				
Land	\$ 73,452	\$ -	\$ (73,452)	\$ -
Capital assets being depreciated:				
Street lighting	512,800	-	-	512,800
Furniture and equipment	60,782	-	-	60,782
Books, periodicals, and materials	<u>737,649</u>	<u>31,724</u>	<u>-</u>	<u>769,373</u>
Subtotal	1,311,231	31,724	-	1,342,955
Less accumulated depreciation	<u>468,245</u>	<u>112,776</u>	<u>-</u>	<u>581,021</u>
Net capital assets being depreciated	<u>842,986</u>	<u>(81,052)</u>	<u>-</u>	<u>761,934</u>
Net capital assets	<u>\$ 916,438</u>	<u>\$ (81,052)</u>	<u>\$ (73,452)</u>	<u>\$ 761,934</u>

Depreciation expense was charged to programs of the primary government and component units as follows:

Governmental activities:	
General government	\$ 233,312
Public safety	139,743
Public works	13,265
Recreation and culture	<u>18,742</u>
Total governmental activities	<u>\$ 405,062</u>
Business-type activities:	
Water	\$ 83,650
Sewer	<u>301,172</u>
Total business-type activities	<u>\$ 384,822</u>
Component units:	
DDA	\$ 17,093
Library	<u>95,683</u>
Total component units	<u>\$ 112,776</u>

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 27,358
General Fund	Local Streets Fund	38,172
Sewer Fund	Water Fund	<u>2,548</u>
Total		<u>\$ 68,078</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Capital Projects Fund	\$ 148,952
Major Streets Fund	Local Streets Fund	36,000
Water Fund	Capital Projects Fund	30,755
Sewer Fund	Capital Projects Fund	<u>30,755</u>
Total		<u>\$ 246,462</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements, capital leases, and installment purchase agreements are also general obligations of the government.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
Limited Tax General Obligation Development Bonds:						
Amount of issue: \$2,500,000	5.00%-	\$150,000-				
Maturing through: 2011	6.00%	\$250,000	\$ 1,650,000	\$ (150,000)	\$ 1,500,000	\$ 200,000
Building Authority Complex Bond:						
Amount of issue: \$1,400,000	4.00%-	\$25,000-				
Maturing through: 2022	6.00%	\$100,000	1,375,000	(25,000)	1,350,000	25,000
Total general obligation bonds			3,025,000	(175,000)	2,850,000	225,000
Installment purchase agreements:						
Bundo property:						
Amount of issue: \$995,000		\$75,000-				
Maturing through: 2011	4.80%	\$145,000	895,000	(75,000)	820,000	75,000
Fire truck:						
Amount of issue: \$551,180		\$45,859-				
Maturing through: 2011	5.09%	\$68,220	507,542	(45,859)	461,683	48,193
Honeywell, Inc. capital lease:						
Amount of issue: \$184,500		\$17,661-				
Maturing through: 2006	5.95%	\$22,364	61,106	(21,081)	40,025	22,364
Total installment purchase agreements			1,463,648	(141,940)	1,321,708	145,557
Total general obligation bonds and installment purchase agreements			4,488,648	(316,940)	4,171,708	370,557
Other long-term obligations - Compensated absences			769,678	(66,420)	703,258	73,010
Total governmental activities			5,258,326	(383,360)	4,874,966	443,567



# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
County contractual agreements:						
Walled Lake - Novi wastewater treatment plant enlargement:						
Amount of issue: \$2,600,000	5.00%-	\$300,000-				
Maturing through: 2006	7.00%	\$350,000	\$ 950,000	\$ (300,000)	\$ 650,000	\$ 300,000
Water supply system:						
Amount of issue: \$2,200,000						
Maturing through: 2004	5.38%	\$85,000	85,000	(85,000)	-	-
Water Supply System Extension No. 1:						
Amount of issue: \$815,000						
Maturing through: 2004	7.00%	\$100,000	100,000	(100,000)	-	-
Total county contractual agreements			1,135,000	(485,000)	650,000	300,000
Government Capital Corp. capital lease:						
Amount of issue: \$90,000		\$18,022-				
Maturing through: 2007	6.495%	\$19,228	72,894	(16,891)	56,003	18,022
Total county contractual obligations and capital lease			1,207,894	(501,891)	706,003	318,022
Other long-term obligations - Compensated absences			-	74,570	74,570	15,250
Total business-type activities			1,207,894	(427,321)	780,573	333,272
<b>Component Unit</b>						
Walled Lake Consolidated School Agreement:						
Amount of issue: \$769,000		\$52,000-				
Maturing through: 2012	-	\$63,625	537,750	(63,625)	474,125	63,625
Loan from the City of Walled Lake Sewer Fund:						
Amount of issue: \$357,004		\$61,905-				
Maturing through: 2004	5.50%	\$63,608	125,513	-	125,513	125,513
Total component unit			663,263	(63,625)	599,638	189,138
Total governmental activities, business-type activities, and component unit			\$ 7,129,483	\$ (874,306)	\$ 6,255,177	\$ 965,977

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements, exclusive of compensated absences, for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 370,557	\$ 211,349	\$ 581,906	\$ 318,022	\$ 35,607	\$ 353,629	\$ 189,138	\$ -	\$ 189,138
2006	393,306	191,435	584,741	369,228	19,401	388,629	63,625	-	63,625
2007	413,224	170,729	583,953	18,753	614	19,367	63,625	-	63,625
2008	430,933	148,240	579,173	-	-	-	63,625	-	63,625
2009	483,780	124,393	608,173	-	-	-	63,625	-	63,625
2010	501,772	94,257	596,029	-	-	-	52,000	-	52,000
2011	484,916	73,037	557,953	-	-	-	52,000	-	52,000
2012	143,220	49,697	192,917	-	-	-	52,000	-	52,000
2013	75,000	43,075	118,075	-	-	-	-	-	-
2014	75,000	39,925	114,925	-	-	-	-	-	-
2015	100,000	36,700	136,700	-	-	-	-	-	-
2016	100,000	32,400	132,400	-	-	-	-	-	-
2017	100,000	28,000	128,000	-	-	-	-	-	-
2018	100,000	23,500	123,500	-	-	-	-	-	-
2019	100,000	18,900	118,900	-	-	-	-	-	-
2020	100,000	14,250	114,250	-	-	-	-	-	-
2021	100,000	9,550	109,550	-	-	-	-	-	-
2022	100,000	4,800	104,800	-	-	-	-	-	-
Total	<u>\$ 4,171,708</u>	<u>\$ 1,314,237</u>	<u>\$ 5,485,945</u>	<u>\$ 706,003</u>	<u>\$ 55,622</u>	<u>\$ 761,625</u>	<u>\$ 599,638</u>	<u>\$ -</u>	<u>\$ 599,638</u>

The future minimum lease payments for various capital leases for the years June 30, 2005 through June 30, 2007 and in total are as follows:

Years Ending June 30	Governmental Funds	Water Fund
2005	\$ 24,252	\$ 21,129
2006	18,190	21,129
2007	-	19,368
Total minimum lease payments	42,442	61,626
Less amount representing interest	(2,417)	(5,623)
Present value at June 30, 2004	<u>\$ 40,025</u>	<u>\$ 56,003</u>

### **Note 7 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool for claims relating to general liability and property, unemployment compensation, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 8 - Defined Benefit Pension Plan**

#### **Plan Description**

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

### Note 8 - Defined Benefit Pension Plan (Continued)

#### Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$360,943 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, noncompounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ 325,142	\$ 358,838	\$ 360,943
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 9 - Defined Contribution Retirement Plan

The City provides pension benefits to substantially all employees other than those included in a collective bargaining unit through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Walled Lake City Council, the City contributes 7 percent to 10 percent of employees' base earnings. The employees are not required to make a contribution but may make a voluntary contribution. In accordance with these requirements, the City contributed \$13,777 during the current year, and the employees contributed \$5,546.

### **Note 10 - Joint Venture**

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority"). The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. During the current year, the City contributed approximately \$5,700 for its operations. Complete financial statements for the Authority can be obtained from the administrative offices at 20000 West 8 Mile Road, Southfield, Michigan 48075.

### **Note 11 - Contingent Liability - Disputed Property Taxes**

The City has collected approximately \$196,000 in taxes, which are now being disputed by various property owners. The majority of these disputed taxes, approximately \$130,000, relates to personal property taxes. The disputed property taxes are the result of new personal property tax tables issued by the State. Accordingly, the City has accrued \$130,000 for the potential refund of these disputed property taxes.

### **Note 12 - Retiree Health Care Fund**

Effective January 1, 2000, the City entered into an agreement with its employees to provide retiree health care benefits. Under terms of the agreement, the City is required to set aside \$75 per pay for each employee. Of this amount, \$70 is set aside to pay premiums of up to \$800 per month for retiree health care. The other \$5 is set aside to reimburse employees, who upon retirement or separation from the City do not wish to participate in the retiree health care program. The \$75 contributed to the plan is set aside by the City in a fund, established in compliance with PA 149 of 1999, called the Retiree Health Care Fund.

### **Note 12 - Retiree Health Care Fund (Continued)**

In order to offset these new costs to the City, the employees contribute \$25 per pay to the City for current health care costs. To be eligible for retirement health care benefits, an employee must have a minimum of 15 years' seniority, or six years' seniority if they were a member of the clerical unit prior to January 1, 2000. For most employees, benefits do not commence until the employee starts to draw from the City's MERS pension plan. If an employee elects not to receive a health care benefit upon retirement, the City will provide a severance benefit equal to \$25 multiplied by the number of pay periods the employee worked subsequent to January 1, 2000.

### **Note 13 - Accounting and Reporting Change**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets, including infrastructure assets (roads, bridges, etc.) of approximately \$12,180,000, not previously accounted for by the City
- Capital assets in the component units column of the statement of net assets not previously accounted for by the component units of approximately \$1,311,000
- The governmental activities column of the statement of net assets includes bonds and other long-term obligations totaling \$5,258,326 previously reported in the General Long-term Debt Account Group.
- The component units column of the statement of net assets includes bonds and other long-term obligations totaling \$663,263 previously reported in the component units General Long-term Debt Account Group.

## **Required Supplemental Information**

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# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes:				
Real and personal property tax	\$ 2,500,246	\$ 2,502,049	\$ 2,502,049	\$ -
Refuse tax	318,234	304,281	304,281	-
Walled Lake Villa and mobile home taxes	10,750	10,717	8,972	(1,745)
Delinquent taxes	12,000	12,000	5,068	(6,932)
Collection fees	56,000	56,216	56,216	-
Interest, penalties, and other	24,000	34,249	34,249	-
Total property taxes	2,921,230	2,919,512	2,910,835	(8,677)
Licenses and permits:				
Building permits	271,500	292,750	319,374	26,624
Cablevision fee	80,000	81,363	81,363	-
Planning and zoning fees	51,500	62,250	80,450	18,200
Other licenses and permits	6,600	12,450	12,352	(98)
Total licenses and permits	409,600	448,813	493,539	44,726
Federal sources	32,394	35,000	37,535	2,535
State sources:				
Revenue-sharing	680,071	649,739	643,216	(6,523)
Police training	3,150	-	1,522	1,522
Liquor license fees	3,800	3,579	3,579	-
Total State sources	687,021	653,318	648,317	(5,001)
Charges for services:				
Radio service	33,990	36,000	27,000	(9,000)
Weed cutting	2,750	2,000	3,388	1,388
Cemetery lot sales	5,000	6,000	4,760	(1,240)
School liaison	27,126	67,049	72,248	5,199
Administrative charges to other funds	270,500	270,500	270,500	-
Total charges for services	339,366	381,549	377,896	(3,653)
Fines and forfeitures - District Court	81,500	65,300	65,917	617
Interest and rent:				
Interest and earnings	28,500	15,000	14,462	(538)
Equipment and building rental	87,250	37,250	24,427	(12,823)
Total interest and rent	115,750	52,250	38,889	(13,361)



# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue (Continued)</b>				
Other:				
Sale of fixed assets	\$ 4,000	\$ 4,000	\$ 3,780	\$ (220)
DARE contributions	40,000	40,000	40,000	-
Reimbursements	24,000	29,525	23,333	(6,192)
Refunds and rebates	40,100	45,039	42,476	(2,563)
Contributions - Downtown Development Authority	-	-	241,366	241,366
Other	42,605	56,252	45,885	(10,367)
Total other	150,705	174,816	396,840	222,024
Total revenue	4,737,566	4,730,558	4,969,768	239,210
<b>Expenditures</b>				
General government:				
Mayor and Council	32,976	24,947	26,189	(1,242)
City Manager	90,747	90,977	93,273	(2,296)
Assessor	52,985	49,693	50,185	(492)
Board of Review	470	370	368	2
Attorney	33,600	35,400	35,400	-
Prosecution and litigation	117,700	109,541	107,277	2,264
Clerk	211,269	202,182	204,971	(2,789)
Treasurer	223,752	221,507	225,649	(4,142)
General government	458,634	220,708	329,488	(108,780)
Total general government	1,222,133	955,325	1,072,800	(117,475)
Public safety:				
Police	1,458,131	1,503,958	1,513,267	(9,309)
Fire	756,221	726,127	722,184	3,943
Dispatch	278,396	272,640	273,269	(629)
Zoning Board of Appeals	2,400	2,011	1,908	103
Building inspection	225,118	225,677	232,354	(6,677)
Planning Commission	74,432	103,140	109,122	(5,982)
Total public safety	2,794,698	2,833,553	2,852,104	(18,551)
Public works:				
Department of Public Works	389,751	375,786	370,593	5,193
Sanitation	333,980	311,850	316,468	(4,618)
Debt service	-	-	241,366	(241,366)
Total public works	723,731	687,636	928,427	(240,791)

# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue (Continued)</b>				
Cultural and recreation:				
Parks and recreation	\$ 24,192	\$ 21,752	\$ 18,964	\$ 2,788
Beautification Commission	3,500	2,704	2,701	3
Total cultural and recreation	27,692	24,456	21,665	2,791
Total expenditures	4,768,254	4,500,970	4,874,996	(374,026)
<b>Other Financing Uses - Operating</b>				
transfer out	148,952	148,952	148,952	-
Total expenditures and other financing uses	4,917,206	4,649,922	5,023,948	(374,026)
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures and Other Financing</b>				
<b>Uses</b>	(179,640)	80,636	(54,180)	(134,816)
<b>Fund Balance - Beginning of year</b>	553,531	487,647	487,647	-
<b>Fund Balance - End of year</b>	<u>\$ 373,891</u>	<u>\$ 568,283</u>	<u>\$ 433,467</u>	<u>\$ (134,816)</u>

# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue	\$ 263,966	\$ 263,966	\$ 260,131	\$ (3,835)
Interest earnings	9,500	9,500	10,359	859
Other	618	618	748	130
Total revenue	274,084	274,084	271,238	(2,846)
<b>Expenditures</b>				
Street maintenance	181,281	180,281	177,623	2,658
Street construction	183,500	157,000	15,056	141,944
Total expenditures	364,781	337,281	192,679	144,602
<b>Other Financing Uses - Operating transfer out</b>	36,000	36,000	36,000	-
Total expenditures and other financing uses	400,781	373,281	228,679	144,602
<b>Excess of Revenue Over (Under) Expenditures and Other Financing Uses</b>	(126,697)	(99,197)	42,559	141,756
<b>Fund Balance - Beginning of year</b>	578,330	706,337	706,337	-
<b>Fund Balance - End of year</b>	<u>\$ 451,633</u>	<u>\$ 607,140</u>	<u>\$ 748,896</u>	<u>\$ 141,756</u>

# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
State-shared revenue	118,057	118,057	115,349	(2,708)
Interest earnings	-	2,000	1,008	(992)
Other	670	670	813	143
Total revenue	120,727	122,727	119,170	(3,557)
<b>Other Financing Sources - Operating transfer in</b>	36,000	36,000	36,000	-
Total revenue and other financing sources	156,727	158,727	155,170	(3,557)
<b>Expenditures</b>				
Street maintenance	225,975	225,975	227,117	(1,142)
Operating and administrative costs	51,041	51,041	47,538	3,503
Total expenditures	277,016	277,016	274,655	2,361
<b>Excess of Expenditures Over Revenue and Other Financing Sources</b>	(120,289)	(118,289)	(119,485)	(1,196)
<b>Fund Balance - Beginning of year</b>	35,307	147,361	147,361	-
<b>Fund Balance (Deficit) - End of year</b>	<u>\$ (84,982)</u>	<u>\$ 29,072</u>	<u>\$ 27,876</u>	<u>\$ (1,196)</u>

# City of Walled Lake, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b>Employees' Retirement System</b>						
12/31/97	\$ 713,438	\$ 3,829,209	\$ 3,115,771	18.63	\$ 1,678,165	186
12/31/98	1,035,511	4,304,574	3,269,063	24.06	1,685,232	194
12/31/99	1,351,817	4,707,140	3,355,323	28.72	1,813,432	185
12/31/00	1,487,550	5,956,452	4,468,902	24.97	1,819,126	246
12/31/01	1,671,282	6,216,778	4,545,496	26.88	2,063,808	220
12/31/02	2,052,333	6,845,619	4,793,286	29.98	2,081,859	230

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/99	12/31/97	\$ 232,828	100.0
06/30/00	12/31/98	255,767	100.0
06/30/01	12/31/99	269,382	100.0
06/30/02	12/31/00	325,142	100.0
06/30/03	12/31/01	358,838	100.0
06/30/04	12/31/02	360,943	100.0

\* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	4.5%
Additional projected salary increases - Seniority and merit	0.0% to 4.16%
*Includes inflation at	4.5%
Cost of living adjustments	2.5%

## **Other Supplemental Information**

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# City of Walled Lake, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Water Fund\* Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Water usage billings	\$ 954,000	\$ 954,000	\$ 1,169,997	\$ 215,997
Benefit fee, debt retirement, and capital equalization charges	376,001	376,001	381,872	5,871
Other charges for services	43,500	43,500	55,836	12,336
Tap-in fees and permits	26,445	26,445	29,471	3,026
Interest earnings	8,000	8,000	26,448	18,448
Other income	8,218	8,218	18,386	10,168
<b>Total revenue</b>	<b>1,416,164</b>	<b>1,416,164</b>	<b>1,682,010</b>	<b>265,846</b>
<b>Expenditures</b>				
Cost of water purchased	665,000	665,000	510,519	154,481
General and administrative expense	231,530	231,530	231,694	(164)
Personnel services	334,900	334,900	319,303	15,597
Capital outlay	1,500	1,500	257	1,243
Debt service principal and interest	106,413	106,413	3,500	102,913
<b>Total expenditures</b>	<b>1,339,343</b>	<b>1,339,343</b>	<b>1,065,273</b>	<b>274,070</b>
<b>Other Financing Uses - Operating transfers out</b>	<b>29,933</b>	<b>29,933</b>	<b>30,755</b>	<b>(822)</b>
<b>Total expenditures and other financing uses</b>	<b>1,369,276</b>	<b>1,369,276</b>	<b>1,096,028</b>	<b>273,248</b>
<b>Excess of Revenue Over Expenditures and Other Financing Uses</b>	<b>46,888</b>	<b>46,888</b>	<b>585,982</b>	<b>539,094</b>
<b>Fund Balance - Beginning of year</b>	<b>183,512</b>	<b>49,121</b>	<b>49,121</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 230,400</b>	<b>\$ 96,009</b>	<b>\$ 635,103</b>	<b>\$ 539,094</b>

\* The Water Fund is budgeted on the modified accrual basis, by activity. The schedule has been prepared on the same basis of accounting used in preparing the adopted budget.

# City of Walled Lake, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Sewer Fund\* Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Sewage treatment billings	\$ 422,406	\$ 422,406	\$ 500,028	\$ 77,622
Connection fee, debt retirement, and capital equalization charges	615,464	615,464	594,620	(20,844)
Tap-in fees and permits	11,700	11,700	45,322	33,622
Interest earnings	25,000	25,000	19,586	(5,414)
Miscellaneous	5,322	5,322	19,576	14,254
Total revenue	1,079,892	1,079,892	1,179,132	99,240
<b>Expenditures</b>				
Sewage treatment charges	683,000	683,000	710,443	(27,443)
General and administrative expense	99,943	99,943	105,530	(5,587)
Personnel services	91,560	91,560	88,101	3,459
Capital outlay	40,000	40,000	39,899	101
Debt service principal and interest	353,500	353,500	353,500	-
Total expenditures	1,268,003	1,268,003	1,297,473	(29,470)
<b>Other Financing Uses - Net operating transfers out</b>	29,933	29,933	30,755	(822)
Total expenditures and other financing uses	1,297,936	1,297,936	1,328,228	(30,292)
<b>Excess of Expenditures and Other Financing Uses Over Revenue</b>	(218,044)	(218,044)	(149,096)	68,948
<b>Fund Balance - Beginning of year</b>	818,292	612,509	612,509	-
<b>Fund Balance - End of year</b>	<u>\$ 600,248</u>	<u>\$ 394,465</u>	<u>\$ 463,413</u>	<u>\$ 68,948</u>

\* The Sewer Fund is budgeted on the modified accrual basis, by activity. The schedule has been prepared on the same basis of accounting used in preparing the adopted budget.



# City of Walled Lake, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Downtown Development Authority Year Ended June 30, 2004

	Modified Accrual	Full Accrual Adjustments	Full Accrual
<b>Revenue</b>			
Property taxes	\$ 910,728	\$ 4,226	\$ 914,954
Interest earnings	6,258	-	6,258
Sale of land	400,000	(73,452)	326,548
Other income	33,490	(6,906)	26,584
	<u>1,350,476</u>	<u>(76,132)</u>	<u>1,274,344</u>
Total revenue	1,350,476	(76,132)	1,274,344
<b>Expenditures</b>			
Street maintenance	132,396	-	132,396
Depreciation	-	17,093	17,093
Personnel costs	175,880	-	175,880
Office and administrative expenses	37,834	-	37,834
Contribution to primary government	241,366	-	241,366
Debt service principal and interest	130,713	(125,513)	5,200
School facility reimbursement	63,625	(63,625)	-
Miscellaneous	84,219	-	84,219
	<u>866,033</u>	<u>(172,045)</u>	<u>693,988</u>
Total expenditures	866,033	(172,045)	693,988
<b>Excess of Revenue Over Expenditures</b>	484,443	95,913	580,356
<b>Net Assets (Deficit) - Beginning of year</b>	<u>167,061</u>	<u>(199,461)</u>	<u>(32,400)</u>
<b>Net Assets - End of year</b>	<u><u>\$ 651,504</u></u>	<u><u>\$ (103,548)</u></u>	<u><u>\$ 547,956</u></u>

# City of Walled Lake, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Walled Lake City Library Year Ended June 30, 2004

	Modified Accrual	Full Accrual Adjustments	Full Accrual
<b>Revenue</b>			
Property taxes	\$ 141,100	\$ -	\$ 141,100
State-shared revenue	18,342	-	18,342
Interest earnings	3,433	-	3,433
Commerce Township service fee	131,553	-	131,553
Video rentals	2,606	-	2,606
Library fines and fees	36,195	-	36,195
Other income	20,650	-	20,650
	<u>353,879</u>	<u>-</u>	<u>353,879</u>
<b>Expenditures</b>			
Personnel costs	225,395	-	225,395
Office and administrative expenses	75,063	-	75,063
Depreciation	-	95,683	95,683
Capital outlay	34,274	(31,724)	2,550
	<u>334,732</u>	<u>63,959</u>	<u>398,691</u>
<b>Excess of Revenue Over (Under)</b>			
<b>Expenditures</b>	19,147	(63,959)	(44,812)
<b>Net Assets - Beginning of year</b>	<u>313,006</u>	<u>512,005</u>	<u>825,011</u>
<b>Net Assets - End of year</b>	<u><u>\$ 332,153</u></u>	<u><u>\$ 448,046</u></u>	<u><u>\$ 780,199</u></u>

August 30, 2004

Honorable Mayor and Members  
of the City Council  
City of Walled Lake  
1499 East West Maple  
Walled Lake, MI 48390

Dear Council Members:

We recently completed the audit of the financial statements of the City of Walled Lake for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration.

#### STATE FUNDING OVERVIEW

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 13 percent of the City's total General Fund revenue for the fiscal year ending June 30, 2004. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

The following depicts the City's actual and estimated revenue sharing payments over a five-year period - from the State's fiscal year ending September 30, 2001 through the fiscal year ending September 30, 2005.

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Estimated FY 2004	Estimated FY 2005
Constitutional	\$ 435,621	\$ 440,058	\$ 447,509	\$ 443,791	\$ 461,532
Statutory	342,306	306,425	260,047	192,975	170,594
Total payments	<u>\$ 777,927</u>	<u>\$ 746,483</u>	<u>\$ 707,556</u>	<u>\$ 636,766</u>	<u>\$ 632,126</u>
Dollar change		\$ (31,444)	\$ (38,927)	\$ (70,790)	\$ (4,640)
Percentage change		-4.04%	-5.21%	-10.00%	-0.73%

While the City's constitutional revenue sharing payments have been increasing slightly, the statutory piece of revenue sharing is estimated to drop almost \$172,000 since 2001. For the State's fiscal year 04/05, the Governor has proposed to hold the line on revenue sharing – meaning that FY 04/05 levels will equal FY 03/04 levels – but only for cities, villages and townships. As you can see, the proposed revenue sharing for the City of Walled for the State's fiscal year ending September 30, 2005 is \$632,126, which represents a reduction of approximately \$5,000 from the estimated amount for the State's fiscal year ending September 30, 2004.

## **STATE FUNDING OVERVIEW (CONTINUED)**

Although increased sales tax revenue would support an increase to state shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

## **ACCOUNTING AND SYSTEM ISSUES**

The following is a list of accounting and internal control matters that we noted during the course of our audit:

- Monthly, manual journal entries are posted to reflect activity not accounted for in the City's subsidiary ledgers. For example, interest income earned on the City's investments would be recorded via a manual journal entry. The manual journal entry process should include a review of all journal entries by a second individual (with an initial and date to document the review). Furthermore, manual journal entries should be limited to one or two key employees at the City. Using tools in the accounting software, the journal entry should be flagged with a preparer id, employee's initials for example indicating who initiated the adjustment. Any questions regarding the validity of the entry at a later date can be traced to the authorized preparer.
- With the implementation of GASB 34, the City inventoried all their fixed assets and infrastructure. The department heads used their own discretion regarding the fixed assets useful life. We recommend implementing an accounting policy; whereby, standard useful lives are applied uniformly across all departments when a fixed asset is purchased. For example, all vehicles at the City could be assigned a useful live of 5 years. Only when circumstances warrant it would the useful life of the asset vary from the City's standard accounting policy.
- During the audit, we noted the water and sewer subsidiary ledger was not being reconciled to the general ledger on a monthly basis. In conjunction with the City's monthly closing procedures, we recommend this type of reconciliation along with timely follow-up if discrepancies exist between subsidiary ledgers and the general ledger.
- Preparation of bank reconciliations continues to be dominated by one employee at the City. Furthermore, an unreconciled difference persists on a monthly basis in the general checking account. As communicated in prior years, we suggest cross training other employees to prepare bank reconciliations and follow-up on unreconciled differences timely.

## **GASB 34 – NEW FINANCIAL STATEMENT FORMAT**

Over the last several years, we have discussed the pending implementation of Governmental Accounting Standards Board (GASB) 34 with the City. This new accounting standard was adopted this year. It significantly impacts the format of the City's financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. The information that was previously provided in your financial statements has been retained in the new financial statement format, however, in a slightly different presentation. In addition, the following major items have been added:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There are two columns, one for governmental activities and one for business-type activities
- Capital assets and their related depreciation are now reported in your governmental activities
- Infrastructure assets (such as roads) are now also capitalized and depreciated

Adopting this new pronouncement has been quite an effort, especially for the City's accounting department. We commend the staff on all of their hard work!

We would like to thank you and your staff again this year for their cooperation and assistance provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**PLANTE & MORAN, PLLC**



Joseph C. Heffernan



Shane C. Ferguson